

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SYMSONIA WATER	)	
AND SEWER DISTRICT FOR RATE	)	CASE NO.
ADJUSTMENT PURSUANT TO 807 KAR	)	2017-00371
5:076	)	

ORDER

On September 7, 2017, Symsonia Water and Sewer District (“Symsonia”) tendered an application (“Application”) to the Commission requesting an adjustment to its water and sewer rates pursuant to 807 KAR 5:076. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“Attorney General”), was granted full intervention on December 5, 2017. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated October 10, 2017. Finding in its December 6, 2017 Order that Commission Staff (“Staff”) required additional time to complete its report on Symsonia’s Application, the Commission, on its own motion, extended the date the Staff Report would be issued from December 7, 2017, to January 3, 2018.

In its Application, Symsonia provided a revenue requirement schedule showing that its water division pro forma operating revenues and expenses support a revenue increase of \$56,599, or 62.3 percent.<sup>1</sup> In addition, Symsonia provided a separate

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<sup>1</sup> Application, Attachment 4, Schedule of Adjusted Operations, Symsonia Water District, Water Division, Revenue Requirements at 1.

schedule showing that its sewer division pro forma operating revenues and expenses support an increase of \$40,397, or 43.6 percent.<sup>2</sup>

On January 3, 2018, Staff issued a report summarizing its findings. Staff found that Symsonia's adjusted test-year water operating revenues and expenses support an Overall Revenue Requirement of \$153,404. In order to achieve Staff's Overall Revenue Requirement, the water division would require an annual increase in revenue from water rates of \$54,978, or 60.5 percent. Staff also found that Symsonia's adjusted test-year sewer operating revenues and expenses support an Overall Revenue Requirement of \$142,993. To achieve Staff's Overall Revenue Requirement, Symsonia would require an increase in annual revenue from sewer service of \$41,308, or 42.5 percent.

On January 16, 2018, Symsonia filed with the Commission its comments on the Staff Report wherein it agreed with Staff's findings. Symsonia amended its Application to request that the Commission authorize the higher rates calculated by Staff that would produce an increase in revenue from sewer service of \$41,308. Symsonia also waived its right to request an informal conference or a formal hearing.<sup>3</sup> On January 17, 2018, the Attorney General submitted comments to the Staff Report generally accepting Staff's findings but expressing concerns regarding the rate design in Symsonia's Application, and the potential impact it would have on the residential customers.

In its January 30, 2018 Order, the Commission ordered Symsonia to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended rates,

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<sup>2</sup> *Id.* Sewer Division, Revenue Requirements at 2.

<sup>3</sup> Letter from Stuart Bell, Chairman, Symsonia Water and Sewer District, to Gwen R. Pinson, Executive Director, Public Service Commission (Jan. 16, 2018).

and to submit proof of publication of the notice with the Commission no later than February 22, 2018. On February 23, 2018, Symsonia submitted the requested proof that the customer notice was published on February 9, 2018, in the Mayfield Messenger newspaper.

### BACKGROUND

Symsonia is a water district organized pursuant to KRS Chapter 74 that provides water service to approximately 322 residential and commercial customers located in Graves County, Kentucky.<sup>4</sup> Its sewer division owns and operates sewage facilities in Graves County, Kentucky, that serve approximately 261 residential customers.<sup>5</sup> Symsonia's last general rate adjustment occurred in 2012.<sup>6</sup>

### TEST PERIOD

The calendar year ended December 31, 2016, should be used as the test year to determine the reasonableness of Symsonia's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

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<sup>4</sup> *Annual Report of Symsonia Water and Sewer District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2016* at 9 and 26.

<sup>5</sup> *Id.* at 9 and 25.

<sup>6</sup> Case No. 2012-00517, *Application of Symsonia Water District for Approval of a Certificate of Public Convenience and Necessity for Construction of Water Facilities, Financing and Increased Rates for Water and Sewer Service* (Ky. PSC Sep. 3, 2013).

## SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Symsonia's pro forma income statements for the water and sewer divisions as follows:

### Water Division

	2016 Annual Report	Reallocation Adjustments	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 100,170	\$ -	\$ (1,863)	\$ 98,307
Operating Expenses	97,141	8,533	23,693	129,367
Net Utility Operating Income	<u>\$ 3,029</u>	<u>\$ (8,533)</u>	<u>\$ (25,556)</u>	<u>\$ (31,060)</u>

### Sewer Division

	2016 Annual Report	Reallocation Adjustments	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 95,250	\$ -	\$ 1,863	\$ 97,113
Operating Expenses	148,090	(8,533)	(13,723)	125,834
Net Utility Operating Income	<u>\$ (52,840)</u>	<u>\$ 8,533</u>	<u>\$ 15,586</u>	<u>\$ (28,721)</u>

## REVENUE REQUIREMENTS

### Water Division

In its report, Staff determined that Symsonia's pro forma operating revenues and expenses for its water division support an increase in revenues of \$54,978 or 60.5 percent above normalized operating revenues from water sales, as shown below:

Pro Forma Operating Expenses	\$	129,367
Plus: Average Annual Debt Service		20,031
Debt Service Coverage		<u>4,006</u>
Total Revenue Requirement		153,404
Less: Other Operating Revenue		(7,454)
Interest Income		<u>(119)</u>
Revenue Required from Rates		145,831
Less: Normalized Revenues from Water Sales		<u>(90,853)</u>
Required Revenue Increase	\$	<u>54,978</u>
Percentage Increase		<u>60.5%</u>

Sewer Division

In its report, Staff determined that Symsonia's pro forma operating revenues and expenses for its sewer division support an increase in revenues of \$41,308 or 42.5 percent above normalized operating revenues from water sales, as shown below:

Operating Expenses	\$	125,834
Divided by: Operating Ratio		<u>88%</u>
Overall Revenue Requirement		142,993
Less: Other Operating Revenue		(4,453)
Interest Income		<u>(119)</u>
Revenue Requirement - Sewer Rates		138,421
Less: Normalized Revenue from Sewer Service		<u>(97,113)</u>
Recommended Revenue Increase	\$	<u>41,308</u>
Percentage Increase		<u>42.5%</u>

## RATE DESIGN

The Attorney General is concerned with the rate design in Symsonia's Application and the potential impact it would have on the residential customers.<sup>7</sup> The Attorney General stated that Symsonia's rate design of a fixed cost coupled with a volumetric rate, which goes into effect only after a certain usage threshold is met, decreases conservation efforts.<sup>8</sup> To promote resource conservation and efficiency, the Attorney General argued that Symsonia's pricing structure should have less reliance on fixed charges and more on volumetric based charges.<sup>9</sup> The Attorney General urged the Commission to consider decreasing the minimum rate and apply a corresponding increase to the volumetric rate.<sup>10</sup>

The Attorney General furthered expressed concerns regarding the compound effect of the rate increase for those customers who receive both water and sewer service from Symsonia.<sup>11</sup> The Attorney General stressed that a rate increase for one service followed by a later increase for the other service would have been more prudent, or that a multi-year phase-in of the rate increases would mitigate the impact on customers.<sup>12</sup>

Regarding the rate design, although the Attorney General suggested that the Commission consider altering the pricing structure, the Attorney General failed to address how this would alleviate concerns about the customer rate shock. The Commission

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<sup>7</sup> Attorney General's Comments on Staff Report (Jan. 17, 2018) at 1-3.

<sup>8</sup> *Id.* at 3.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> *Id.* at 5.

<sup>12</sup> *Id.*

disagrees with the Attorney General's position favoring an offset of fixed costs with volumetric costs. As in the case of the sewer division rates, the water rates were calculated using a modified cost-of-service study that allocated the fixed costs and volumetric costs and to simply adjust the charges would be contrary to past Commission practice concerning rates calculated through a cost-of-service study.

The principle intent of a cost-of-service study is to allocate the costs of the provision of water service to the various customer classifications. The Commission has not favored altering the rates or rate structure in the absence of a cost-of-service study. A percentage across-the-board increase to allocate the revenue requirement as established in the Staff Report has been accepted by the Commission for water service rates, outside of a cost-of-service study. The Commission has been provided nothing to persuade it from accepting the method Symsonia used in this case.

The Commission understands the concerns of the Attorney General. However, the Commission notes that in Case No. 2012-00517<sup>13</sup>, Symsonia chose to not accept Staff's recommended increase in the Overall Revenue Requirement and the calculated rates.<sup>14</sup> In addition, the adoption of the Attorney General's proposed gradual implementation of the rate increase would cause the Commission to deny Symsonia's recovery of the supported revenue requirement.

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<sup>13</sup> Case No. 2012-00517, *Application of Symsonia Water District for Approval of a Certificate of Public Convenience and Necessity for Construction of Water Facilities, Financing and Increased Rates for Water and Sewer Service* (Ky. PSC Sep. 3, 2013).

<sup>14</sup> Symsonia's Response to Commission Staff Report filed Apr. 11, 2013.

## SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.

2. The rates proposed by Symsonia would produce revenues in excess of the amount found reasonable herein and should be denied.

3. The rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates proposed by Symsonia are denied.

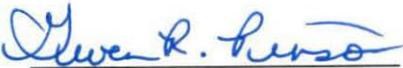
3. The rates set forth in the Appendix to this Order are approved for services rendered by Symsonia on and after the date of this Order.

4. Within 20 days of the date of entry of this Order, Symsonia shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

By the Commission



ATTEST:

  
Executive Director

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-000370 DATED **MAR 30 2018**

The following rates and charges are prescribed for the customers in the area served by Symsonia Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

#### 5/8- x 3/4-Inch Meter

First 2,000 Gallons	\$24.74	Minimum Bill
Next 3,000 Gallons	6.18	per 1,000 Gallons
Next 5,000 Gallons	4.77	per 1,000 Gallons
Over 3,000 Gallons	4.01	per 1,000 Gallons

#### 2-Inch Meter

First 20,000 Gallons	\$107.23	Minimum Bill
Over 20,000 Gallons	4.01	per 1,000 Gallons

#### 4-Inch Meter

First 40,000 Gallons	\$187.43	Minimum Bill
Over 40,000 Gallons	4.01	per 1,000 Gallons

#### Monthly Sewer Rates

##### All Customers

First 2,000 Gallons	\$33.72	Minimum Bill
Over 2,000 Gallons	4.76	per 1,000 Gallons

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